HOUSING MARKET OUTLOOK

Saguenay

Canada Mortgage and Housing Corporation

www.cmhc.ca

FALL-WINTER 2005

Economic overview

Uncertain! That's how the climate resulting from the economic situation in the Saguenay census metropolitan area (CMA) could be qualified. There is some good news here, some bad news there, and, like elsewhere in the province, municipal elections are on the horizon. Without a doubt, economic development will be a major issue in the Saguenay mayoral race that will be decided on November 6, 2005. The winner of this race will face several challenges.

The first challenge is economic development. Following two rather prolific years, employment, measured on a monthly basis, has not stopped posting losses since the beginning of 2005. After the plant closures, the slowdown in wood and paper product manufacturing activities is now weakening the overall manufacturing sector. Restructurings in the public administration sector have also contributed to the slowdown observed on the labour market since the beginning of the year in the area. The challenge is therefore to diversify the regional economy, so that the area may be less dependent on wood and aluminum industries.

The second challenge, which stems from the first, is related to the demographic decline. In fact, the most pressing problem for the Saguenay area is related to the retention of young people who, for lack of finding a job in their field, leave the area. In its 2005-2007 sector and job prospects, the Canada Human Resources Centre based in Saguenay–Lac-St-Jean mentioned that young people aged from 15 to 24 years have accounted for 61 per cent of the negative net migration in the area in recent years. And that's not all, the Institut de la statistique du Québec forecasts that the Saguenay–Lac-St-Jean population will decline by 5 per cent between 2001 and 2011, while an increase of 5 per cent is anticipated for Quebec overall. The second challenge is then to slow down and, if possible, stop the exodus of young people.

IN THIS ISSUE

1 Economic overview

2 Mortgage rates to remain favourable

2 Latent demand causing Saguenay to go against the tide

2 Slight increase for the freehold home segment

2 Traditional rental housing construction not slowing down

3 Retirement housing: new units in sight!

3 Vacancy rate to stay high

3 Resale market headed toward a new peak

4 FORECAST SUMMARY

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Given that the demographic decline results from the performance of the labour market, it will be important to successfully diversify the regional economy and thereby create jobs that will attract young people and incite them to stay in Saguenay. Since population—more specifically, household formation—and employment form the basis for housing demand, the residential real estate market could be negatively impacted over the coming years if the current trend is maintained.

Mortgage rates to remain favourable

According to CMHC, mortgage rates will remain relatively stable in 2005 and then rise progressively during 2006. The inflation trend, the strength of the Canadian dollar against the US dollar, and the weaker economic growth in Canada will limit the extent and pace of any interest rate and mortgage rate hikes in the country from now until the end of 2006. The one-year mortgage rate should therefore not exceed 5.75 per cent by the end of 2006, while the five-year rate should remain under the 6.5-per-cent mark.

Latent demand causing Saguenay to go against the tide

The climate of uncertainty related to the economic situation in the area is making it rather difficult to analyze the fundamental factors. While, elsewhere in the province, residential construction is either stable or on the decline, the Saguenay CMA is going against the tide. Even though employment posted a respectable performance in 2003 and 2004, the negative announcements in recent years (plant closures, stumpage reduction, etc.) possibly delayed the purchase or sale of properties and consequently created a latent demand. In addition, the limited supply on the resale market and the low mortgage rates will continue to fuel demand during 2005, but their impact should wane over the course of 2006. As a result, for all housing types combined, there should be 515 new units built in 2005 and 390, in 2006.

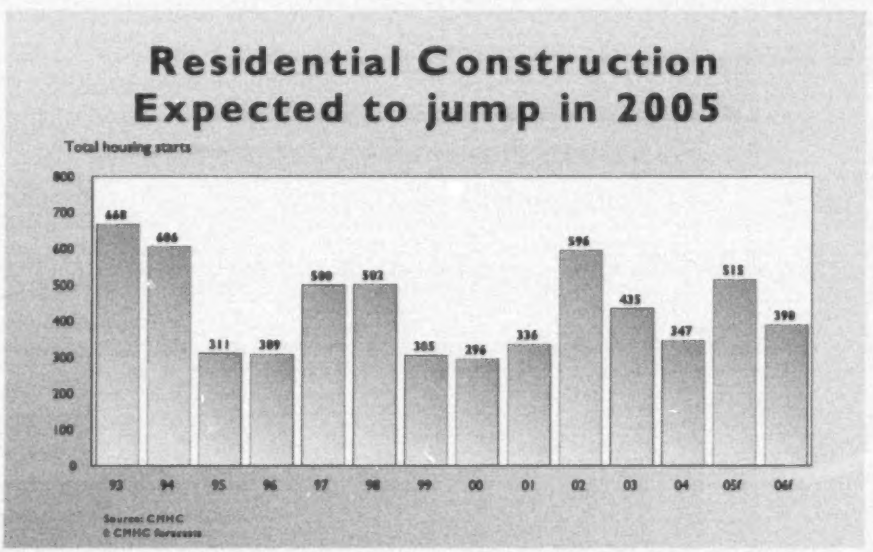
Slight increase for the freehold home segment

For freehold homes[1], construction will be on the rise in 2005, with an expected 310 starts, or 10 per cent more than were enumerated in 2004 (282 units). The low mortgage rates are continuing to oil the gears, and the greater demand in 2005 confirms that the job creation in 2003 and 2004 has managed to counter the effects of the plant closure announcements. The very limited offer and higher prices on the resale market are also factors that will have fuelled construction in this market segment, since buyers who cannot find what they are looking for on the resale market turn to new homes instead. For 2006, mortgage rates are expected to rise slightly, and the job losses that have been recorded month after month since the beginning of 2005 will offset the positive impact of the resale market. In 2006, construction should therefore get under way on 290 new freehold homes, for an anticipated decrease of 6 per cent.

Traditional rental housing construction not slowing down

In the traditional rental housing construction sector, the vacancy rate in privately initiated structures with three or more housing units, which has been above the balanced level for over 15 years, and the average rent, which has risen only very slowly in recent years, should affect the morale of investors. The increase in construction costs, at a faster pace than inflation, should also curb new rental housing starts, since profitability is consequently reduced. However, the actual results show a totally different story, as rental housing construction does not seem to want to slow down. In fact, 58 new units were added to the Saguenay rental housing stock in 2004, mostly in small projects, or plexes. At the time of the October 2004 survey, the vacancy rate for structures with 3 to 5 units was 3.7 per cent, compared to 6.2 per cent for projects with 6 to 19 units. It would therefore seem that demand for small buildings is sufficiently considerable to support their construction. As a result, 80

Residential Construction Expected to jump in 2005



[1] Refers to single-family houses (detached, semi-detached and row homes) owned under freehold tenure and owner-occupied duplexes.

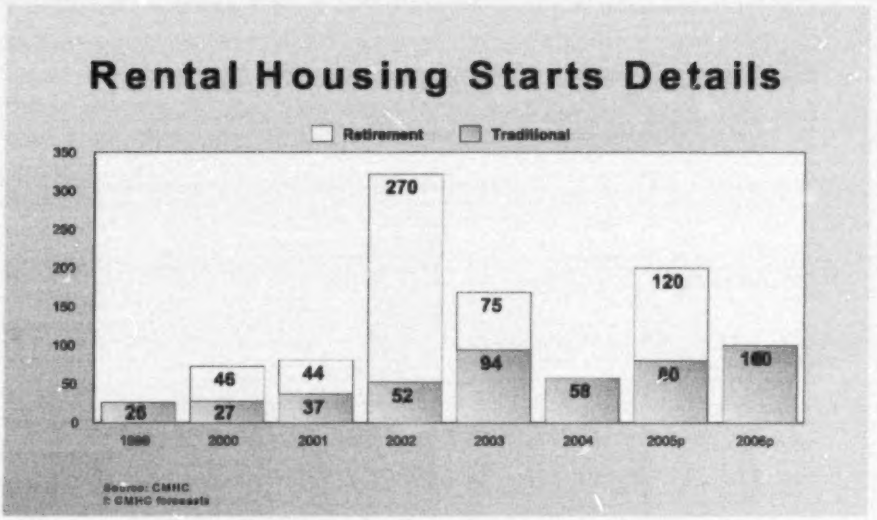
starts of this type are expected in 2005. For 2006, while certain factors are prompting us to anticipate a decrease, the completion of a number of rental housing units built under government programs will counter the negative impact of the other factors, and 100 new units are expected.

Retirement housing: new units in sight!

With the aging of the population, the retirement home market is flourishing, to say the least. The Saguenay CMA witnessed this first-hand in 2002 and 2003, with the arrival of more than 300 new units for seniors, which increased the stock of this type of housing by close to 20 per cent in two years. Given that the demographic projections allow us to establish the annual potential demand for such housing at around 50 units and that no new starts of this type were observed in 2004, a portion of the potential for 2004 must be attributed to the absorption of the units started in 2003. In fact, the vacancy rate for retirement homes went from 7.7 per cent in October 2003 down to 2.9 per cent at the same time in 2004. The potential for 2005 should therefore be just over 50 units. The announcement of a project with about a hundred units in Jonquière (scheduled for completion in April 2006) and the expansion of another retirement home in Chicoutimi will be the highlights of 2005 and will more than meet the current needs in the area. There should consequently be close to 120 starts of this type in 2005 and none in 2006.

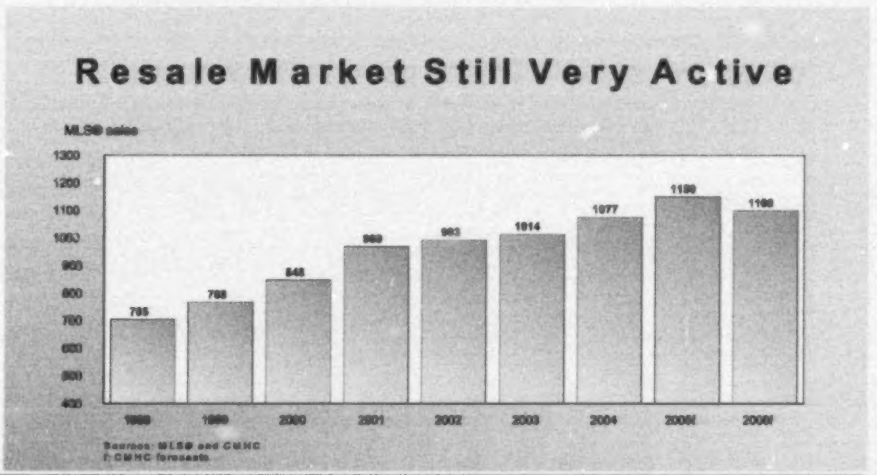
Vacancy rate to stay high

Considering the vacancy rate that has prevailed for several years, the negative net migration in the area, the very slow rise in mortgage rates and the climate of uncertainty related to the economy, the overall demand for rental housing should be expected to ease somewhat in 2005. However, the job creation level observed in 2004 could raise demand for this type of housing throughout this year and drive down the vacancy rate, but the inclusion in the rental market survey of the units built in 2004 will cause this additional demand to be concealed in the results. The rental housing vacancy rate should therefore be 5.4 per cent in the Saguenay CMA in 2005. For 2006, the arrival of a project with around one hundred units for seniors will temporarily push up the vacancy rate, until the project has been fully absorbed.



Resale market headed toward a new peak

As was the case for the new home market, the low mortgage rates continued to stimulate the resale market, which reached a new peak last year, with 1,077 units sold through the Service inter-agences / Multiple Listing Service (S.I.A.®/MLS®). The increase in sales is occurring in parallel with a more and more limited supply of existing homes, as the number of sellers per buyer went from 9.5 in 2000 down to 3.9 in 2005. Sometimes, when inventories decline, sales end up slowing down, based on the assumption that buyers may have more difficulty in finding a property that suits them, but this does not currently seem to be the case. In addition to the low mortgage rates, the good performance of the labour market in 2004 continues to support demand, but the job losses registered since the beginning of 2005 will be felt on the market



toward the second half of 2006. As a result, the resale market is expected to reach a new peak in 2005 and will end the year with 1,150 transactions. For 2006, a slight decline is anticipated, as sales should attain 1,100 units, a relatively high level for the Saguenay area.

As mentioned earlier, the supply of existing homes is increasingly limited in the Saguenay area. In fact, the seller-to-buyer ratio has been below the 5-to-1 mark for nine consecutive quarters now, which means that sellers have the edge during negotiations. This situation is directly reflected in the price hike. In the third quarter of 2005, the average selling price of single-family homes[2] reached $108,483, compared to $98,611 in 2004, for an increase of 10 per cent. Prices should therefore rise by close to 10 per cent in 2005 and by 6 per cent in 2006.

[2] Single-family homes include detached, semi-detached and row houses.

Forecast Summary
Saguenay Metropolitan Area
Fall-Winter 2005

	2003	2004	2005f	2004/2005	2006f	2005/2006
RESALE MARKET [1]						
MLS Sales®	1.014	1.077	1,150	7 %	1,100	-4 %
Average MLS price $ ®	94.625	100.371	110,000	10 %	117,000	6 %
NEW HOME MARKET						
Starts						
Total	435	347	515	48 %	390	-24 %
Freehold	274	282	310	10 %	290	-6 %
Condominiums	0	7	5	--	0	--
Rental housing units	161	58	200	245 %	100	-50 %
Average price ($)						
Detached houses	141.379	145.208	152.000	5 %	156.000	3 %
Semi-detached houses	83.913	97.13	101.000	4 %	105.000	4 %
RENTAL MARKET (%)						
Vacancy Rate (october)	5.2	5.3	5.4	--	5.8	--
Average rent (2-bedroom)	457	459	462	--	467	--
ECONOMIC OVERVIEW						
Mortgage rate 1-year (%)	4.80	4.59	5.00	--	5.71	--
Mortgage rate 5-year (%)	6.39	6.23	6.00	--	6.47	--
Annual employment level	68.675	71.950	69.000	--	69.500	--
Unemployment rate (%)	11.5	10.9	10.0	--	10.1	--

[1] : The publication of MLS data is made possible thanks to the cooperation of the Quebec Federation of Real Estate Boards and the Saguenay-Lac St-Jean Real estate Board. Data could differe from those published previously.
f : CMHC forecasts
Sources: CMHC, SLSJREB and Statistics Canada

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